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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 17 2010

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY ELECTRIC
COOPERATIVE, INC. FOR APPROVAL OF
A TARIFF FOR RESIDENTIAL TOU
SERVICE

DOCKET NO. E-01749A-09-0041

DECISION NO. 71701ORDER

Open Meeting
May 13, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Graham County Electric Cooperative, Inc. ("Graham County", "GCEC", "Applicant" or "Cooperative") is certificated to provide electric service as a non-profit corporation and public service corporation to its member-customers in Graham County, Arizona.

2. On February 2, 2009, Graham County filed an Application ("Application") for authorization to provide Time-of-Use ("TOU") service to its residential customers. The Decision, in part, requires that "Within 18 months of Commission adoption of this standard, each electric distribution utility shall offer to appropriate customer classes, and provide individual customers upon customer request, a time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility's costs of generating and purchasing electricity at the wholesale level."¹ In addition, the Cooperative was

¹ Docket No. E-00000A-06-0038, p. 7, lines 6-9

1 required to "... investigate the feasibility and cost-effectiveness of implementing advanced
2 metering infrastructure for its service territory and shall begin implementing the technology if
3 feasible and cost-effective.²

4 3. The Cooperative's TOU rates, as proposed, would initially only be available to its
5 residential customers. The Applicant has requested a waiver from the time-based rate schedule
6 requirement for its non-residential customers. Graham County's primary reason for initially
7 limiting its proposed TOU rates to residential members is that the Cooperative has not determined
8 the costs or feasibility of offering TOU rate options to its non-residential customers.

9 **Staff's Findings**

10 4. The Application indicates that GCEC serves approximately 6,100 members, of
11 which approximately 5,800 (95 percent) are residential customers. At this time, Graham is not
12 recommending TOU tariffs for its non-residential customers. Based on responses to Staff's data
13 requests, Staff determined the following:

- 14 a) Graham County has not conducted cost of service or feasibility studies in support of
15 its proposed Rate Schedule A-TOU tariff;
- 16 b) the Cooperative relied on its existing rate structure and power costs, as well as TOU
17 filings by similar cooperatives, such as Trico Electric Cooperative ("Trico"), to
18 develop its proposed TOU rates and time periods;
- 19 c) Graham County believes that the usage patterns of Trico's members are similar to
20 GCEC's customers' usage patterns, and as such, recommends a 70 percent off-peak
21 and 30 percent on-peak usage ratio;
- 22 d) the majority of Graham County's customers do not have meters that register and
23 produce a record of hourly usage;
- 24 e) the Cooperative has concluded that the variation in non-residential customers'
25 usage is significantly higher than residential customers' usage variations, and has
26 therefore recommended excluding non-residential customers from TOU options at
27 this time;
- 28 f) Graham County's purchase power rates are not time differentiated at the wholesale
 level, consequently there are no energy-related cost savings available to pass on to
 its retail members; and,

² Decision No. 69736, p. 7, lines 11-12

g) load and coincident peak data were not filed in support of the proposed on-peak and off-peak hours, because the Cooperative believes that it is appropriate to use Trico's peak periods and days as models to develop their respective TOU periods. Staff notes that both GCEC and Trico, at the time of filing this Application, buy all of their power from Arizona Electric Power Cooperative ("AEPSCO"), and pay a demand charge based on their demands at the time of AEPSCO's monthly coincident peak.

5. The following summary table was developed by Staff to compare Graham County's existing and proposed rates; and GCEC's proposed TOU time periods with time periods recently approved for Trico in Decision No. 71253:

RESIDENTIAL RATE CLASS

Table I	Existing	Proposed	Existing
[A]	[B]	[C]	[D]
	Graham County (Non TOU Rates & Hours)	Graham County (TOU Rates & Hours)	Trico Electric* (TOU Hours)
Customer Charge	\$9.00	\$15.00	
On-Peak per kWh	\$0.11038	\$0.21000	
Off-Peak per kWh	\$0.11038	\$0.06000	
Summer Months	April-October	April-October	April-October
Summer On-Peak Hours (Remaining hours are Off-Peak hours)	All kWh (Every Day)	1 p.m. to 8 p.m. (Every Day)	1 p.m. to 9 p.m. (Monday-Friday)
Winter Months	November-March	November-March	November-March
Winter On-Peak Hours (Remaining hours are Off-Peak hours)	All kWh (Every Day)	6 a.m. to 9 a.m. and 5 p.m. to 9 p.m. (Every Day)	6 a.m. to 10 a.m. and 6 p.m. to 10 p.m. (Monday-Friday)
Estimated Annual On-Peak Hours		2,555	2,032

*Decision No. 71253 issued September 2, 2009. Off-Peak hours include the following holidays: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Based on information contained in Table I, Staff concluded that: 1) Graham County's proposed annual on-peak hours exceed Trico's annual on-peak hours by 523 hours (2,555 – 2,032); and, 2) GCEC's proposed on-peak hours would include all weekends and holidays.

Staff's Recommendations

Commission Decision No. 69736

6. As discussed above, Decision No. 69736 requires distribution utilities to offer time-based rate schedules to appropriate customer classes and investigate the feasibility of implementing an advanced metering infrastructure. The Applicant has requested a waiver from the

time-based rate schedule requirement for its non-residential customers and does not address the “infrastructure” requirement in the Application.

7. Staff recommends granting a temporary waiver from the time-based non-residential rate schedule requirement. Staff recommends an experimental one-year pilot period for Graham County’s proposed residential Rate Schedule A-TOU. The pilot proposal will be discussed in more detail below. During the pilot period for the residential TOU rate schedule, Graham County should also gather information on non-residential customers to determine the feasibility of developing appropriate TOU rate options for non-residential customers.

8. Regarding advanced metering infrastructures, Staff recommended that Graham County be required to docket within 90 days of the Commission’s Decision in this matter, empirical data that support its decision to implement or not implement an advanced metering infrastructure.

Energy Rates

9. Although Graham County opted to rely on TOU rates filed by other cooperatives having similar usage patterns, Graham County did not recommend TOU energy rates that have similar on-peak to off-peak rate ratios. Table II illustrates the derivation of rate ratios.

Table II TOU RATES PER KWH AND RESULTANT RATE RATIOS

	<u>Graham County Proposed</u>	<u>Trico Existing</u>	<u>Staff Proposed*</u>
A) On-Peak	\$0.21000/kWh	\$0.19320/kWh	\$0.17499/kWh
B) Off-Peak	\$0.06000/kWh	\$0.07320/kWh	\$0.07651/kWh
C) Ratios = A/B	3.50	2.64	2.29

*Attachment 2, Part I

10. Graham County’s proposed TOU energy rates would create a rate ratio of 3.50, compared to Trico’s rate ratio of approximately 2.64 and Staff’s proposed rate ratio of approximately 2.29. GCEC’s proposed ratio is nearly 33 percent higher than Trico’s existing rate ratio and approximately 53 percent above Staff’s proposed rate ratio.

11. Staff is concerned about energy ratios because the higher they are compared to the rate ratio of a referenced model, the more unlikely such rates will encourage customers to sign-up for TOU rates as a way to reduce their monthly electric bills. One reason for this likelihood is that

prospective TOU customers are seeking balanced TOU rates that provide "reasonable incentives" to move kWh usage to off-peak hours. Although it is nearly impossible to draft a definition that nearly everyone will agree to, most ratepayers agree that rewards (i.e., lower off-peak rates) should be reasonably balanced with potential penalties (i.e., reasonably higher on-peak rates). If a TOU on-peak rate is too severe compared to existing non-TOU rates, customers will opt out rather than expose themselves to a perceived severe financial risk.

12. Attachment 2, Part III illustrates the \$/kWh impact on Graham County's and Staff's proposed TOU rates. A general summary of TOU rates is that an increasing rate ratio is highly correlated (99+ percent; Attachment 2, Part II) with higher on-peak rates (penalties) that are skewed upward more than off-peak rates (rewards) have been lowered. The following excerpt from Attachment 1 illustrates this point from a different perspective.

Table III RESIDENTIAL BILL COMPARISONS*

kWh Monthly Usage Level	Monthly kWh	Graham County Current Rates	Graham County Proposed TOU Rates	Graham County Monthly Savings	Staff Proposed TOU Rates	Staff Monthly Savings
Low Usage	250	\$36.60	\$41.25	(\$4.65)	\$38.91	(\$2.31)
Average Usage	785	\$95.65	\$97.43	(\$1.78)	\$95.65	\$0.00
Median Usage	1,875	\$215.96	\$211.88	\$4.08	\$211.25	\$4.71
High Usage	3,500	\$395.33	\$382.50	\$12.83	\$383.59	\$11.74

*Based on 70 percent usage being off-peak

13. Although the monthly dollar difference between Graham County's proposed rates and Staff's proposed rates is small, Staff's proposed rates produce a revenue neutral result at the monthly average 785 kWh usage level. In addition, Staff's proposed rates would be more beneficial to at least 94 percent of the Cooperative's residential customers (Docket No. E-01749A-07-0236, Schedule H-5) compared to Graham County's proposed rates.

14. Regarding the 70 percent off-peak usage parameter, Staff believes that a 70 percent off-peak and 30 percent on-peak kWh usage ratio is a reasonable rate design parameter for Graham

County's residential customers. For example, Trico's actual residential TOU kWh usage as filed in its latest rate case was 71 percent off-peak and 29 percent on-peak (Docket No. E-01461A-08-0430, Schedule F-5.2, p. 4).

15. The following table summarizes the sensitivity of rates proposed by Staff under different off and on-peak kWh usage ratios. The impact on customers' monthly billings is fairly modest at less than 4.5 percent at the given usage ratios.

TABLE IV SENSITIVITY TO DIFFERENT OFF AND ON-PEAK USAGE RATIOS

kWh Monthly Usage Level	Monthly kWh	+/- Deviation From Base Case Monthly Bill	Monthly Bill Under Staff's Proposed Rates @ 75/25	Monthly Bill Under Staff's Proposed Rates @ 70/30 *	Monthly Bill Under Staff's Proposed Rates @ 65/35
Low Usage	250	\$1.23/3.16%	37.68	\$38.91	\$40.14
Average Usage	785	\$3.87/4.04%	\$91.79	\$95.65	\$99.52
Median Usage	1,875	\$9.23/4.37%	\$202.02	\$211.25	\$220.48
High Usage	3,500	\$17.23/4.49%	\$366.36	\$383.59	\$400.82

* Base Case

16. Attachment 2 contains the derivation of the \$0.07651 per kWh off-peak and \$0.17499 per kWh on-peak rates. These rates create a rate ratio of 2.29. The proposed TOU rates support the existing approved base cost of power rate of \$0.076509 per kWh. Attachment 2, Part I begins with the existing base cost of power carried to five decimal places. Placing the off-peak rate at this level allowed Staff to develop an on-peak rate that produces a revenue neutral on and off-peak rate combination and a desirable rate ratio of 2.29. As discussed above, it is important to send the right price signals by "right sizing" the perceived "penalty" for using on-peak energy. Attachment 2, Part III illustrates the impact of different rate ratios on reward and penalty TOU rates.

Customer Charge

17. Regarding the Cooperative's proposed monthly Customer Charge in the amount of \$15.00, Staff elected to base its rate design on a proposed \$12.40 Customer Charge, which reflects an increase of \$3.40 per month compared to the existing customer charge. The \$3.40 incremental charge is designed to recover the incremental carrying costs associated with the purchase and

1 installation of a residential time-based meter and incremental billing-related costs. Staff received
2 cost data that are supported by Form 7, 2009 entries that produce an approximate incremental cost
3 in the amount of \$351 per meter. The annualized carrying costs (11.49 percent) produce an
4 annualized, incremental monthly carrying cost in the amount of approximately \$3.40 ($\$351 \times$
5 $11.49\% \div 12$). Staff recommends approval of its proposed \$12.40 monthly Customer Charge.

6 **Experimental One-Year Pilot Period**

7 18. Staff believes that TOU rates approved in this docket should be offered to Graham
8 County's residential customers as an experimental, optional TOU rate alternative. This approach
9 gives the Applicant and Commission more flexibility to adjust rates, terms and conditions during a
10 transition period from non-TOU rates to optional TOU rates. Staff believes that a one-year "pilot"
11 period would be sufficient to identify, but not be limited to, the pros and cons of TOU rates for
12 Graham County's residential and non-residential customers, level of customer participation,
13 customer savings or losses, impact on GCEC demand costs, operations and revenues; and, make
14 potentially useful comparisons between the TOU and net-metering programs.

15 19. At the end of the pilot period, estimated by Staff to be approximately 14 months
16 after the Commission's Decision in this matter, Staff recommends that GCEC present its summary
17 findings and recommendations to the Commission for review. If Graham County files a rate case
18 during the pilot period, Staff recommends that existing TOU rate options be incorporated into the
19 rate case for consideration by the Commission. Under either scenario, Staff recommends that
20 Schedule A-TOU would remain in effect until acted upon by the Commission.

21 **Fair Value Considerations**

22 20. Staff has considered the proposed equipment charges (included in the proposed
23 \$12.40 monthly customer charge) in terms of fair value implications. In Decision No. 70289,
24 issued on April 24, 2008, the Commission determined the fair value of Graham County's property
25 to be \$19,076,282. Although Staff considered this information, the proposed equipment charges
26 on Schedule A-TOU would have no significant impact on the Cooperative's revenue, fair value
27 rate base, or rate of return, because these charges are cost-based and relatively limited in scope.

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Summary of Recommendations

Based on information contained in the Application and developed through discovery, Staff has made the following recommendations in this docket:

- A. Staff recommended that Schedule A-TOU be approved as an experimental pilot with Staff's proposed rates, until further order of the Commission.
- B. Staff recommended the adoption of the currently approved Trico Electric's TOU hours, days, months and holidays as approved in Decision No. 71253, and as summarized in Table I, Column D.
- C. Staff recommends that Graham County be granted a temporary waiver at this time of the requirement to have time-based rate schedules for non-residential customers while Graham County gathers information and determines the feasibility of TOU options for non-residential customers.
- D. Staff recommends that within 14 months of the Decision in this matter Graham County should docket its summary findings and recommendations regarding the pilot program for consideration by the Commission.
- E. Within 90 days of the Commission's Decision in this matter, Staff recommended that Graham County be required to docket empirical data that support its decision to not install an advanced metering infrastructure at this time as required by Decision No. 69736.
- F. Within 30 days of the Commission's Decision in this matter, Staff recommended that Graham County be required to docket data that identify its 2009 monthly coincident and non-coincident power peaks (kW), and identify the times, dates and weekdays of the peaks.
- G. Staff recommended that Graham County be ordered to file a revised Schedule A-TOU in compliance with the Decision in this matter within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. Graham County Electric Cooperative, Inc. is a public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

2. The Commission has jurisdiction over the Graham County Electric Cooperative, Inc. and subject matter of the Application.

3. Approval of the Graham County Electric Cooperative's proposed Rate Schedule A-TOU in this Application does not constitute a rate increase as contemplated by A.R.S. Section 40-250.

1 4. The Commission, having reviewed the Application and Staff's Memorandum dated
2 April 28, 2010, concludes that it is in the public interest to approve the Cooperative's proposed
3 Schedule A-TOU as discussed and revised herein.

4 ORDER

5 IT IS THEREFORE ORDERED that Graham County Electric Cooperative, Inc.'s proposed
6 Schedule A-TOU, as discussed and revised herein, be and hereby is approved as an experimental
7 pilot with Staff's proposed rates until further order of the Commission.

8 IT IS FURTHER ORDERED that within 14 months of the Commission's Decision in this
9 matter, Graham County Electric Cooperative, Inc. docket its summary findings and
10 recommendations regarding the pilot program for consideration by the Commission.

11 IT IS FURTHER ORDERED that Staff recommended time-of-use hours, days, months and
12 holidays as summarized in Decision No. 71253 and Finding of Fact No. 5, Table I, Column D, of
13 this Decision be adopted by Graham County Electric Cooperative, Inc.

14 IT IS FURTHER ORDERED that within 90 days of the Commission's Decision in this
15 matter, Graham County Electric Cooperative, Inc. shall docket empirical data that support its
16 decision to not install an advanced metering infrastructure as required by Decision No. 69736.

17 IT IS FURTHER ORDERED that within 30 days of the Commission's Decision in this
18 matter, Graham County Electric Cooperative, Inc. shall docket data that identify its 2009 monthly
19 coincident and non-coincident power peaks (kW), and identify the times, dates and weekdays of
20 the peaks.

21 IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc. is granted a
22 temporary waiver at this time of the requirement to have time-based rate schedules for non-
23 residential customers while Graham County Electric Cooperative, Inc. gathers information and
24 determines the feasibility of TOU options for non-residential customers.

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1 IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc. shall docket,
2 as a compliance item in this matter, tariff pages for the approved Schedule A-TOU within 15 days
3 from the effective date of the Decision in this matter.

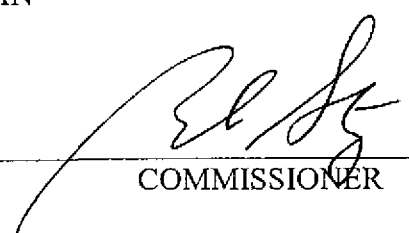
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 CHAIRMAN

COMMISSIONER

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10 
11 COMMISSIONER

12 
13 COMMISSIONER

14 COMMISSIONER

15 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
16 Executive Director of the Arizona Corporation Commission,
17 have hereunto, set my hand and caused the official seal of
18 this Commission to be affixed at the Capitol, in the City of
19 Phoenix, this 17th day of MAY, 2010.

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21 
22 ERNEST G. JOHNSON
23 EXECUTIVE DIRECTOR

24 DISSENT: _____

25 DISSENT: _____

26 SMO:WHM:lhv\CH
27
28

1 SERVICE LIST FOR: Graham County Electric Cooperative, Inc.
2 DOCKET NO. E-01749A-09-0041

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2009 RESIDENTIAL SINGLE PHASE RATE SCHEDULE COMPARISON**

	Graham Current Rate Schedule	Graham-Proposed 70% Off-Peak TOU Rate	Savings in \$	Savings in %	Graham Current Rate Schedule	Staff-Proposed 70% Off-Peak TOU Rate	Savings in \$	Savings in %	
Off-Peak Usage		70%				70%			
On-Peak Usage		30%				30%			
Monthly Service Charge	\$9.00	\$15.00			\$9.00	\$12.40			
Per kWh Rate	\$0.11038	\$0.06000			\$0.11038	\$0.07651			
Per kWh Rate On-Peak		\$0.21000				\$0.17499			
PPAM Rates as of 8-09 to 9-09	0				0				
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(I)	
Monthly kWh									
Residential Bill Using kWh of	250	36.60	41.25	(4.66)	-12.72%	36.60	38.91	(2.32)	-6.34%
Residential Bill Using kWh of	500	64.19	67.50	(3.31)	-5.16%	64.19	65.43	(1.24)	-1.93%
Residential Bill Using kWh of	750	91.79	93.75	(1.96)	-2.14%	91.79	91.94	(0.16)	-0.17%
Residential Bill @ Average kWh of	785	95.65	97.43	(1.78)	-1.86%	95.65	95.65	(0.00)	0.00%
Residential Bill Using kWh of	1000	119.38	120.00	(0.62)	-0.52%	119.38	118.45	0.93	0.78%
Residential Bill Using kWh of	1250	146.98	146.25	0.72	0.49%	146.98	144.97	2.01	1.37%
Residential Bill Using kWh of	1500	174.57	172.50	2.07	1.19%	174.57	171.48	3.09	1.77%
Residential Bill Using kWh of	1750	202.17	198.75	3.42	1.69%	202.17	197.99	4.17	2.06%
Median of Given Bill Count Range	1875	215.96	211.88	4.09	1.89%	215.96	211.25	4.71	2.18%
Residential Bill Using kWh of	2000	229.76	225.00	4.76	2.07%	229.76	224.51	5.25	2.29%
Residential Bill Using kWh of	2250	257.36	251.25	6.11	2.37%	257.36	251.02	6.33	2.46%
Residential Bill Using kWh of	2500	284.95	277.50	7.45	2.61%	284.95	277.54	7.42	2.60%
Residential Bill Using kWh of	2750	312.55	303.75	8.80	2.81%	312.55	304.05	8.50	2.72%
Residential Bill Using kWh of	3000	340.14	330.00	10.14	2.98%	340.14	330.56	9.58	2.82%
Residential Bill Using kWh of	3250	367.74	356.25	11.49	3.12%	367.74	357.08	10.66	2.90%
Residential Bill Using kWh of	3500	395.33	382.50	12.83	3.25%	395.33	383.59	11.74	2.97%

* Time-of-Use

** NOTE: These rates do not include sales taxes, REST Surcharges and PPAM rates.

Staff Recommended Rates, Rate Correlations and Reward/Penalty Values**Part I: Staff Recommended TOU Rates and Resultant Rate Ratio**

	<u>Input Ratios</u>	<u>Input Rates</u>		<u>Input Cust Chg</u>	<u>Input Total Bill, \$ *</u>
Off-Peak	70%	0.07651		↓	
On-Peak	30%	0.17499		\$12.40	
Rate Ratio		2.29			
				<u>Cust Chg</u>	<u>Target</u>
				<u>& Energy</u>	<u>Savings</u>
<u>kWh</u>			<u>Energy</u>		
250			\$ 26.51	\$ 38.91	\$ 36.60 \$ (2.31)
500			\$ 53.03	\$ 65.43	\$ 64.19 \$ (1.24)
785			\$ 83.25	\$ 95.65	\$ 95.65 \$ (0.00)
1000			\$ 106.05	\$ 118.45	\$ 119.38 \$ 0.93
1875			\$ 198.85	\$ 211.25	\$ 215.96 \$ 4.71
3500			\$ 371.18	\$ 383.58	\$ 395.33 \$ 11.75

* from Attachment 1, Column (B)

Part II: Correlation Of Rate Ratios and Resultant Rates

<u>Parameters For Rate Ratios</u>	<u>Given</u>	<u>Energy Rates**</u>	<u>Energy Rates**</u>
	<u>Rate Ratios</u>	<u>Off-Peak \$/kWh</u>	<u>On-Peak \$/kWh</u>
Staff Recommended (Part I above)	2.29	0.07651	0.17499
Trico (Table II)	2.64	0.07109	0.18763
Graham County (Proposed)	3.50	0.06000	0.21000
Correlation		-99.91%	99.69%
Correlation Squared		99.83%	99.39%

**Derived using given rate ratios

Part III: TOU Rate (\$/kWh) Rewards And Penalties

	<u>Off-Peak</u>	<u>Off-Peak</u>	<u>Off-Peak</u>	<u>On-Peak</u>	<u>On-Peak</u>	<u>On-Peak</u>
	<u>(A)</u>	<u>\$/Kwh</u>	<u>\$/Kwh</u>	<u>\$/Kwh</u>	<u>\$/Kwh</u>	<u>\$/Kwh</u>
Existing Non-TOU Rate =	\$0.11038	(B)=(C)/(A)	(C)=(A)-(D)	(D)=Part II	(E)=(F)/(A)	(F)=(G)-(A)
		<u>% Reward</u>	<u>\$ Reward</u>	<u>Rates</u>	<u>% Penalty</u>	<u>\$ Penalty</u>
Staff Recommended (Part II Rates)		30.7%	\$0.03387	0.07651	58.5%	\$0.06461
Graham County (Proposed)		45.6%	\$0.05038	0.06000	90.3%	\$0.09962
						<u>Rates</u>
						0.17499
						0.21000